

Message Text

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E.O. 11652: N/A
TAGS: ETRD, EGEN, OECD
SUBJECT: JAN 13 MEETING OF OECD EXECUTIVE COMMITTEE
IN SPECIAL SESSION: CURRENT ECONOMIC SITUATION AND
TRADE AND STRUCTURAL PROBLEMS

1. SUMMARY: WIDE RANGING XCSS DISCUSSION OF TRADE
AND STRUCTURAL PROBLEMS IN THE CURRENT ECONOMIC
SITUATION--HIGHLIGHTS ARE REPORTED BELOW--REVEALED
STRONG INTEREST BY MOST DELS IN PURSUING DIALOGUE ON
THIS ISSUE. SECRETARIAT WAS URGED TO PROCEED WITH ITS
ANALYTICAL WORK, INCLUDING INVENTORY OF NATIONAL
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MEASURES IN TRADE AREA AND STUDY OF CHANGES IN NATIONAL
ECONOMIES' CAPACITY TO ADJUST AND THE DEMANDS BEING
MADE ON THEM TO DO SO. SEVERAL DELS EXPRESSED
INTEREST IN WORK WHICH MIGHT HELP THEM PICK WINNING
OR LOSING SECTORS IN COMING DECADE, WHILE OTHERS,
SKEPTICAL OF FEASIBILITY OF DOING THIS, FAVORED
FOCUSSING ON GENERAL WAYS FOR HELPING PRIVATE SECTOR

CHOOSE ITS OWN DIRECTIONS OF DEVELOPMENT MORE EFFICIENTLY. THERE WAS BROAD AGREEMENT OF NEED TO INTEGRATE THE ADVANCED LDC'S INTO THE DEVELOPED TRADING SYSTEM'S RULES. ALTHOUGH THERE WAS SOME DISCUSSING OF POSSIBILITY OF ESTABLISHING CRITERIA OR GUIDELINES FOR PREFERRED ADJUSTMENT MEASURES, VIEWS WERE DIVIDED ON WHETHER THIS WOULD BE POSSIBLE. NUMBER OF DELS FELT THAT MORE INFORMATION ON THE PROBLEMS FACED AND THE WORKING OF THE ADJUSTMENT PROCESS WAS NECESSARY BEFORE EMBARKING ON WORK IN THIS AREA. KEY ROLE PLAYED BY CONTINUED ECONOMIC GROWTH IN EASING ADJUSTMENT PROBLEMS AND NEED TO PUSH FORWARD IN MTN WAS STRESSED BY ALL DELS. NEXT MEETING OF XCSS WAS SCHEDULED FOR APRIL 14. END SUMMARY.

2. CURRENT ECONOMIC SITUATION: SECRETARIAT (FAY) SET THE SCENE FOR THE XCSS DISCUSSION OF STRUCTURAL AND NORTH/SOUTH QUESTIONS BY REHEARSING THE GLOOMY PICTURE FOR 1978 WHICH WAS FIRST PRESENTED TO THE ECONOMIC POLICY COMMITTEE AND MADE PUBLIC IN THE DECEMBER 1977 "ECONOMIC OUTLOOK." APART FROM A FEW BRIGHT SPOTS (GREATER ECONOMIC STABILITY IN UK, FRANCE, ITALY, FINLAND, AUSTRALIA; NO OIL PRICE INCREASE FOR FIRST HALF OF 1978), VIRTUALLY ALL DETAILS WERE DEPRESSING INCLUDING THE SECRETARIAT'S ASSESSMENT OF NEW JAPANESE MEASURES (ADMITTEDLY PRELIMINARY BASED ON INCOMPLETE LIMITED OFFICIAL USE

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KNOWLEDGE) AND LACK OF ANYTHING NEW FROM GERMANY. SECRETARIAT EXPECTS U.S. TAX CUT (IN RANGE OF \$25 BILLION AS NOW BEING DISCUSSED) TO AT BEST DAMPEN THE SLOWDOWN IN SECOND HALF 1978. U.S. OUTLOOK FOR 1979 IS UNCERTAIN. CONTINUED WEAKNESS OF DOLLAR OF PARTICULAR CONCERN, ACCORDING TO SECRETARIAT, SINCE SYSTEM CANNOT FUNCTION PROPERLY WHEN ITS "KEY CURRENCY IS UNDER A CLOUD." PREFERRED SECRETARIAT SOLUTION WAS FOR STRONG CURRENCY COUNTRIES TO EXPAND RATHER THAN FOR U.S. TO PUT ON THE BRAKES. ONLY COMMENT WAS BY JAPANESE DEL (MIYAZAKI), WHO NOTED GOJ WAS TAKING SERIES OF ACTIONS TO ACHIEVE MARKED DECREASE IN ITS CURRENT ACCOUNT DEFICIT AS SOON AS POSSIBLE AND WOULD EVEN ACCEPT A DEFICIT. (TEXT OF FAY STATEMENT BEING POUCHED TO EUR/RPE - GELBARD)

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3. TRADE AND STRUCTURAL PROBLEMS: AFTER SECRETARIAT PRESENTATION STRESSING THE CHALLENGE FACED BY MEMBER GOVERNMENTS IN THE CURRENT GLOOMY ECONOMIC SITUATION TO AVOID THE WRONG KIND OF SECTORAL POLICIES, THE GROUP FIRST LAUNCHED INTO AN EXCHANGE ON NEAR TERM TRADE POLICY PROBLEMS AND THEN (SEE BELOW) DISCUSSED STRUCTURAL ADJUSTMENT. FRG NOTED TRADE COMMITTEE HAD INITIATED SURVEY OF SITUATION IN TRADE POLICY FIELD AND THAT CHAIRMAN STEEG HAD CIRCULATED LETTER PROPOSING A NUMBER OF ISSUES FOR CONSIDERATION BY TRADE COMMITTEE IN CONNECTION WITH RENEWAL OF TRADE PLEDGE. DELS ENCOURAGED THESE EFFORTS. EC REP (LOEFF) URGED GROUP NOT DUPLICATE TRADE COMMITTEE WORK AND AVOID BEING OVERPESSIMISTIC. HE STYLED RESULTS OF RENEWAL OF MULTI-FIBER AGREEMENT AS A LIMITED OFFICIAL USE

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"CORRECTION OF ANOMALIES," (I.E. EC HAS ABSORBED 75 PERCENT OF EXPORT INCREASES BY LDCE) WHICH, WHILE NOTHING TO BE PROUD OF, WAS NOTHING TO BE ASHAMED OF EITHER. JAPANESE PUT EMPHASIS ON NEED TO CONSTRAIN ACTIONS

WHICH DISTORT WORLD ECONOMY AND TO AVOID NEGATIVE ATTITUDE TOWARD LDC INDUSTRIALIZATION. SWEDEN ARGUED FOR ORIENTING ECONOMIC GROWTH TOWARD INCREASED IMPORTS OF MANUFACTURES (RATHER THAN RAW MATERIALS) AND SUGGESTED INCREASED AID WOULD HELP DC EXPORT INDUSTRIES. LATTER IDEA WAS ECHOED BY NORWAY AND AUSTRIA. SWEDEN EXPRESSED MISGIVINGS ABOUT VOLUNTARY RESTRAINT AGREEMENTS AND REFERENCE PRICE SYSTEMS. CANADA, FINLAND AND AUSTRALIA ALSO REFERRED TO PROBLEM THAT BILATERALLY NEGOTIATED RESTRAINT AGREEMENTS CAUSED FOR SMALLER COUNTRIES WITH LESSER POLITICAL WEIGHT.

4. U.S. DEL (UNDERSECRETARY COOPER) URGED GROUP TO TAKE A BROAD VIEW OF PROBLEM AND NOT BE OVERLY CONCERNED ABOUT DUPLICATION OF EFFORT. HE HOPED TRADE COMMITTEE WORK WOULD COVER ALL MEASURES WITH POSSIBLE TRADE EFFECTS. UNDERSECRETARY COOPER SUGGESTED SOME OF PROLIFERATION OF SECTORAL MEASURES COULD BE EXPLAINED BY FACT THAT GENERAL MONETARY AND FISCAL POLICIES HAD BECOME LESS EFFECTIVE FOR ACHIEVING SPECIFIC DOMESTIC GOALS AS ECONOMIES BECAME MORE OPEN. THUS PRESSURE AROSE FOR SECTORAL POLICIES, WHICH WERE NOT HOWEVER INTENDED AS SUBSTITUTE FOR TRADE RESTRICTIONS AND NOT EMPLOYED WITH PROTECTIONIST OBJECTIVE. HE NOTED SECRETARIAT PAPER HAD ERRONEOUSLY PUT U.S. STEEL MEASURES INTO TRADE RESTRICTION CATEGORY. FRENCH DEL (FROMENT-MEURICE), AFTER DEFENSIVE REMARKS ABOUT MULTI-FIBERAGREEMENT, ALSO SUPPORTED CONCEPT LIMITED OFFICIAL USE

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OF IMPORT ORIENTED GROWTH AND STRESSED NEED FOR ADVANCED LDC'S TO MOVE CLOSER TO DC TRADE POLICY PRACTICES. SWISS REP REPEATED THIS POINT. CANADA POINTED OUT PROBLEMS INVOLVED IN DRAWING BOUNDARIES BETWEEN INTERNAL MEASURES WITH AND WITHOUT TRADE EFFECTS, PICKING UNEMPLOYMENT INSURANCE SCHEMES AS AN EXAMPLE. AUSTRALIA SUGGESTED GOVERNMENTS SHOULD LEARN LESSON FROM DISMAL EXPERIENCE IN AGRICULTURAL FIELD, AND NOT EXTEND MEASURES LONG FAMILIAR IN THIS SECTOR-THRESHOLD PRICES-- INTO THE INDUSTRIAL AREA. CONSENSUS OF GROUP WAS THAT ATTACHMENT TO OPEN TRADING SYSTEM SHOULD BE CONFIRMED AND AN EVALUATION MADE OF THE KINDS OF MEASURES BEING TAKEN WHICH MIGHT BE UNDERMINING THIS SYSTEM.

5. STRUCTURAL ADJUSTMENT: NORWAY OPENED DEBATE ON ADJUSTMENT BY NOTING IT HAD EXTENSIVE SYSTEM OF MEASURES TO ENCOURAGE REGIONAL AND INDUSTRIAL DEVELOPMENT AND WOULD WELCOME EFFORT TO DETERMINE WHAT

SECTORS SHOULD BE STIMULATED AND WHAT MEANS SHOULD BE USED. SECRETARIAT (MARRIS) RESPONDED THAT ADVICE TO GOVERNMENTS ON WHICH SECTORS TO STIMULATE HAD NOT BEEN SEEN AS AN OBJECTIVE OF THIS EXERCISE. UK SUPPORTED NORWEGIANS AND SUGGESTED MAIN NEED WAS FOR INFORMATION EXCHANGE ON PROBLEM SECTORS, ESPECIALLY WITH RESPECT TO INVESTMENT INTENTIONS. SWEDISH DEL ADVOCATED ISOLATING EXTREME CASES WHERE ACTION WAS NECESSARY AND AGREEING ON ACCEPTABLE ADJUSTMENT MEASURES WHICH AVOID TRANSFERRING BURDEN TO OTHERS. HE NOTED SWEDEN HAD ACCOMPLISHED SUBSTANTIAL CAPACITY REDUCTION

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IN AN ORDERLY MANNER, AND THAT ONLY WHERE NATIONAL SECURITY WAS AT STAKE (TEXTILES, CLOTHING, SHOES) WAS OUTRIGHT PROTECTION BEING USED. IN RESPONSE TO SWISS PROBING ON SWEDISH CRITERIA FOR NATIONAL SECURITY CASES, SWEDISH REP EXPAINED THAT A CAPACITY TO SUPPLY 20 PERCENT OF DOMESTIC MARKET WAS NECESSARY TO ENABLE SURVIVAL THROUGH A SCENARIO INVOLVING A THREE YEAR CUTOFF FROM WORLD TRADE, WHICH SWEDEN HAD EXPERIENCED IN LAST TWO WORLD WARS.

6. U.S. DEL NOTED U.S. ECONOMY HAD INCREASED IMPORTS FROM LDC'S AT 16 PERCENT PER YEAR DURING 1960'S WHEN U.S. HAD FOUR PERCENT ANNUAL GNP GROWTH RATE, AND SUGGESTED GROWTH RATE WAS MAJOR DETERMINANT OF ADJUSTMENT ABILITY. ON THE DEMAND SIDE, HE NOTED THAT IMPORTS WERE ONLY THE THIRD MOST IMPORTANT SOURCE LIMITED OFFICIAL USE

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OF PRESSURE FOR STRUCTURAL CHANGE IN THE U.S., AFTER TECHNICAL PROGRESS AND SHIFTS IN GOVERNMENTAL PROCUREMENT. UNDERSECRETARY COPER SUGGESTED SECRETARIAT EXAMINE WHETHER DEMANDS FOR ADJUSTMENT HAD INCREASED AND WHETHER ADJUSTMENT ABILITY OF NATIONAL ECONOMIES HAD DECREASED SINCE 1960'S, INCLUDING QUESTION OF WHETHER LABOR HAD BECOME LESS MOBILE AND WAGE DIFFERENTIALS HAD BECOME MORE RIGID. U.S. REP POINTED OUT THAT ALLOWING ADJUSTMENT TO TAKE PLACE WITHIN SECTORS WAS A MUCH EASIER PROPOSITION THAN SWAPPING ENTIRE SECTORS, AND THAT GETTING ADVANCED LDC'S TO REDUCE THEIR OWN PROTECTIONISM WOULD BE HELPFUL IN THIS RESPECT. IN RESPONSE TO SWISS QUESTION, U.S. DEL EXPLAINED NATURE OF U.S. ADJUSTMENT ASSISTANCE PROGRAM, WHICH HAD NOT BEEN VERY EFFECTIVE, AND OUTLINED THE EXPERIMENTAL PROGRAM BEING TRIED FOR THE SHOE INDUSTRY, WHICH WAS STILL IN EARLY STAGES OF IMPLEMENTATION. SPAIN SUGGESTED U.S. WAS AVOIDING ADJUSTMENT IN THIS SECTOR, BUT U.S. REP REPLIED THAT FIRMS THAT COULD NOT BECOME FULLY COMPETITIVE WOULD BE ENCOURAGED TO LEAVE THE INDUSTRY. CANADIAN INTERVENTION SUPPORTED SWEDISH PROPOSALS TO SECRETARIAT (PARA 5, ABOVE) THAT DIFFERENT CAUSES OF ADJUSTMENT PROBLEMS BE SORTED OUT AS WELL AS TYPES OF POLICY RESPONSES. CANADIAN STUDY OF INDUSTRIAL STRUCTURES WAS ATTEMPTING TO DETERMINE "WINNERS AND LOSERS" AMONG INDUSTRIES. HE ADDED THAT HIS EXPERIENCE INDICATED SECTORAL AND REGIONAL POLICIES HAD HAD LITTLE EFFECT IN CANADA, BUT THAT CERTAIN MORE GENERAL POLICIES AND REGULATIONS-- IN SOCIAL, MANPOWER, AND ENVIRONMENTAL FIELDS-- HAD SIGNIFICANT ADVERSE EFFECT ON THE FLEXIBILITY OF THE INDUSTRIAL SECTOR AND MIGHT HAVE BUILT IN A BIAS TOWARD INFLATION.

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7. FRENCH DEL SAID STRUCTURAL ADJUSTMENT PROBLEMS WERE

OF DEEP CONCERN TO GOF SINCE MANUFACTURED EXPORTS WERE MAIN MOTOR FOR ECONOMY AND ADJUSTMENT WAS CLOSELY LINKED TO ISSUE OF COOPERATION WITH LDC'S. WHILE SUGGESTING THAT ULTIMATE RESULT OF COLLECTIVE DISCUSSION OF THIS QUESTION COULD BE CODE OF CONDUCT ON GOOD AND BAD MEASURES OF SECTORAL SUPPORT, FROMENT-MEURICE WAS CAUTIOUS ABOUT DRAWING UP LIST WHICH WOULD BE VALID FOR ALL COUNTRIES AND THOUGHT WORK ON CRITERIA SHOULD AWAIT DEEPER ANALYSIS OF PROBLEMS. HE WELCOMED SECRETARIAT STUDIES AIMED AT EXAMINING CAUSES OF SECTORAL PROBLEMS AND PREFERRED MEASURES. FRG ALSO WELCOMED SECRETARIAT WORK BUT ASKED THAT JUDGEMENTS ABOUT MEASURES BE AVOIDED. JAPAN SUGGESTED CHOICE OF SPECIFIC MEASURES WOULD HAVE TO BE LEFT TO NATIONAL GOVERNMENTS, BUT GENERAL GUIDELINES MIGHT BE FOUND: FOR EXAMPLE, MEASURES SHOULD NOT HARM THE INTERNATIONAL ECONOMY AND SHOULD BE AIMED AT REDUCING OR MODERNIZING CAPACITY. NORWAY WOUND UP DEBATE BY REITERATING POINT MADE BY MOST OF SMALLER COUNTRIES DURING DISCUSSION, NAMELY THAT FASTER GROWTH OF IMPORT DEMAND FROM STRONGER OECD COUNTRIES WAS KEY TO COPING WITH ADJUSTMENT PRESSURES. SECRETARIAT PLEDGED TO WORK IDEAS VOICED BY DELS INTO ITS STUDY OF ADJUSTMENT PRESSURES, CAPACITY, AND OBSTACLES WHICH SHOULD BE READY IN APRIL.

8. THIS CABLE WAS PREPARED AFTER THE DEPARTURE OF THE U.S. DELEGATION. KATZ

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